

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Eau Claire (City), Wisconsin conform to generally accepted accounting principles as applicable to governmental units.

A. REPORTING ENTITY

This report includes all of the funds of the City. The reporting entity for the City consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A legally separate organization should be reported as a component unit if the elected official of the primary government is financially accountable to the organization. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government.

A legally separate, tax exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization; (3) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. All discretely presented component units have been combined and reported in a separate column in the government-wide financial statements (see note below for descriptions) to emphasize that they are legally separate from the government.

Discretely Presented Component Units

Housing Authority of the City of Eau Claire

The government-wide financial statements include the Housing Authority of the City of Eau Claire (Housing Authority) as a component unit. The Housing Authority is a legally separate organization. The board of the Housing Authority is appointed by the Eau Claire City Council. Wisconsin Statutes provide for circumstances whereby the City can impose its will on the Housing Authority, and also create a potential financial benefit to or burden on the City. See Note III.J. As a major component unit, the Housing Authority's financial statements have been presented as a discrete column in the financial statements. The information presented is for the fiscal year ended December 31, 2005. Separately issued financial statements of the Housing Authority of the City of Eau Claire may be obtained from the Housing Authority's office, which is located at 203 South Farwell Street, P.O. Box 5148, Eau Claire, WI 54702-5148.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

A. REPORTING ENTITY (cont.)

Discretely Presented Component Units (cont.)

Redevelopment Authority of the City of Eau Claire

The government-wide financial statements include the Redevelopment Authority of the City of Eau Claire (RDA) as a component unit. The RDA is a legally separate organization. The board of the RDA is appointed by the Eau Claire City Council. Wisconsin Statutes provide for circumstances whereby the City can impose its will on the RDA, and also create a potential financial benefit to or burden on the City. See Note III.J. As a nonmajor component unit, the RDA's financial statements have been combined with other nonmajor component units and presented as a separate column in the financial statements. The information presented is for the fiscal year ended December 31, 2005. Separately issued financial statements of the RDA of the City of Eau Claire may be obtained from the Finance Director's office, which is located at 203 South Farwell Street, P.O. Box 5148, Eau Claire, WI 54702-5148.

Business Improvement Districts (BIDs)

The government-wide financial statements include the Downtown Business Improvement District, West Grand Business Improvement District, Water Street Business Improvement District, and the North Barstow/Medical Business Improvement District as component units. The BIDs are legally separate organizations. The BID boards are appointed by the Eau Claire City Council. Wisconsin Statutes provide for circumstances whereby the City can impose its will on the BIDs, and also create a potential financial benefit to or burden on the City. See Note III.J. As nonmajor component units, the BID's financial statements have been combined with other nonmajor component units and presented as a separate column in the financial statements. The information presented is for the fiscal year ended December 31, 2005. Separate financial statements are not issued by the Business Improvement Districts.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (cont.)

Government-Wide Financial Statements (cont.)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The City does not allocate indirect expenses to functions in the statement of activities. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported as general revenues. Internally dedicated resources are reported as general revenues rather than as program revenues.

Fund Financial Statements

Financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, net assets/fund equity, revenues, and expenditure/expenses.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Funds are organized as major funds or non-major funds within the governmental and proprietary statements. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. The same element of the individual governmental fund or enterprise fund that met the 10 percent test is at least 5 percent of the corresponding total for all governmental and enterprise funds combined.
- c. In addition, any other governmental or enterprise fund that the City believes is particularly important to financial statement users may be reported as a major fund.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (cont.)

Fund Financial Statements (cont.)

The City reports the following major governmental funds:

General Fund – accounts for the City's primary operating activities. It is used to account for all financial resources except those required to be accounted for in another fund.

General Debt Service Fund – accounts for resources accumulated and payments made for principal and interest on long-term debt other than TID or enterprise fund debt.

The City reports the following major enterprise funds:

Water Utility – accounts for the construction, operations, and maintenance of the municipal water pumping, treatment, and distribution systems.

Sewer Utility – accounts for the construction, operations, and maintenance of the municipal sewage collection and treatment system.

Storm Water Utility – accounts for the construction and operation of the City's storm sewer system. It also accounts for the acquisition and maintenance of storm water detention areas.

Public Transit – accounts for the operations and maintenance of the municipal mass transit facility and fleet equipment.

The City reports the following non-major governmental and enterprise funds:

Special Revenue Funds – used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

- Cemetery Maintenance
- Hazardous Materials Response
- Community Development
- Home Grant
- Economic Development
- Community Enhancement
- Public Library
- City-County Health Department
- Downtown Partners
- Former Landfill Escrow

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (cont.)

Fund Financial Statements (cont.)

Debt Service Funds – used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Debt Service – TIF #4

Debt Service – TIF #6

Capital Projects Funds – used to account for financial resources to be used for the acquisition or construction of equipment and/or major capital facilities.

TIF #5 Gateway Northwest Business Park

TIF #7 Soo Line Development

TIF #8 Downtown Development

Street Projects

Bridge Projects

Buildings and Equipment

Parks and Recreation Projects

Environmental Improvements – Landfill

Library Buildings and Equipment

Enterprise Funds – may be used to report any activity for which a fee is charged to external users for goods or services, and must be used for activities which meet certain debt or cost recovery criteria.

Parking Utility

Hobbs Ice Center

Outdoor Pool

In addition, the City reports the following fund types:

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis.

Risk Management

Central Equipment

Agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and/or other governmental units.

Tax Collection Fund

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements

The government-wide statement of net assets and statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Property taxes are recognized as revenues in the year for which they are levied. Taxes receivable for the following year are recorded as receivables and deferred revenue. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met. Special assessments are recorded as revenue when earned. Unbilled receivables are recorded as revenues when services are provided.

The business-type activities follow all pronouncements of the Governmental Accounting Standards Board, and have elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer utility and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, claims, judgments, compensated absences, and pension expenditures, which are recorded as a fund liability when expected to be paid with expendable available financial resources.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (cont.)

Fund Financial Statements (cont.)

Property taxes are recorded in the year levied as receivables and deferred revenues. They are recognized as revenues in the succeeding year when services financed by the levy are being provided.

Intergovernmental aids and grants are recognized as revenues in the period the City is entitled to the resources and the amounts are available. Amounts owed to the City which are not available are recorded as receivables and deferred revenues. Amounts received prior to the entitlement period are also recorded as deferred revenues.

Special assessments are recorded as revenues when they become measurable and available as current assets. Annual installments due in future years are reflected as receivables and deferred revenues.

Revenues susceptible to accrual include property taxes, miscellaneous taxes, public charges for services, special assessments and interest. Other general revenues such as fines and forfeitures, inspection fees, recreation fees, and miscellaneous revenues are recognized when received in cash or when measurable and available under the criteria described above.

The City reports deferred revenues on its governmental funds balance sheet. Deferred revenues arise from taxes levied in the current year which are for subsequent year's operations. For governmental fund financial statements, deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received before the City has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as described previously in this note. Agency funds follow the accrual basis of accounting and do not have a measurement focus.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (cont.)

Fund Financial Statements (cont.)

The enterprise funds follow all pronouncements of the Governmental Accounting Standards Board, and have elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989. The proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Utility, Sewer Utility, Storm Water Utility, and Public Transit are charges to customers for sales and services. Special assessments are recorded as receivables and contribution revenue when levied. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Current rates in the water utility were approved by the Public Service Commission of Wisconsin on August 1, 2003. Current sewer rates were approved by the City council in January 1, 1998. Current storm water utility rates were approved by the City council on November 12, 2004.

All Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. Deposits and Investments

For purposes of the statement of cash flows, the City considers all highly liquid investments with an initial maturity of three months or less when acquired to be cash equivalents.

Investment of City funds is restricted by state statutes. Available investments are limited to:

1. Time deposits in any credit union, bank, savings bank or trust company maturing in three years or less.
2. Bonds or securities of any county, city, drainage district, technical college district, village, town, or school district of the state. Also, bonds issued by a local exposition district, a local professional baseball park district, a local professional football stadium district, a local cultural arts district, or by the University of Wisconsin Hospitals and Clinics Authority.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)

1. Deposits and Investments (cont.)

3. Bonds or securities issued or guaranteed by the federal government.
4. The local government investment pool.
5. Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
6. Securities of an open-end management investment company or investment trust, subject to various conditions and investment options.
7. Repurchase agreements with public depositories, with certain conditions.

Investment of most trust funds are regulated by Chapter 881 of the Wisconsin Statutes. Investment of library trust funds is regulated by Chapter 112. Those sections give broad authority to use such funds to acquire various kinds of investments including stocks, bonds and debentures.

The City has adopted an investment policy. That policy contains the following guidelines for allowable investments:

Custodial Credit Risk

Collateralization shall be required on all demand deposit accounts, non-negotiable certificates of deposit, and repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be a minimum of 106% of the market value of principal and accrued interest. The level of collateralization is negotiated and a part of the City's Bank Services contract. Collateral shall be pledged in the name of the City of Eau Claire, subject to release by the City's finance director.

Credit Risk

The City will only invest in the type of investments allowable by state statutes as listed above. In addition, any securities the City invests in must have a rating which is the highest or second highest rating category assigned by Standard & Poor's Corporation, Moody's Investors' Service or other similar nationally recognized ranking agency, or if that security is senior to, or on a parity with, a security of the same issuer which has such a rating.

Concentration of Credit Risk

The City will diversify investments by security type, institution and terms of maturity to reduce portfolio risk. With the exception of U.S. agency securities and authorized pools, no more than fifty percent of the City's total investment portfolio will be invested in a single security type or with a single financial institution. Investments shall be diversified by:

1. Limiting investments to avoid concentration in securities from a specific issuer or business sector (excluding U.S. agency securities and authorized pools).
2. Limiting investment in securities that have higher credit risks.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

1. Deposits and Investments (cont.)

Concentration of Credit Risk (cont.)

3. Investing in securities with varying maturities.
4. Continuously investing a portion of the portfolio in readily available funds such as local government investment pools or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

Interest Rate Risk

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five years from the date of purchase. However, the City may collateralize its investments using longer-dated securities. The City will maintain at least ten percent of its total investment portfolio in instruments maturing in 30 days or less.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Investment income on commingled investments of municipal accounting funds is allocated based on average balances. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit.

The Wisconsin Local Government Investment Pool (LGIP) is part of the State Investment Fund (SIF), and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. Participants in the LGIP have the right to withdraw their funds in total on the same day if prior to 11:00 a.m. CST. At December 31, 2005, the fair value of the City's share of the LGIP's assets was substantially equal to the amount as reported in these statements.

See Note III.A. for further information.

2. Receivables

Property taxes are levied in December on the assessed value as of the prior January 1. They are recognized as revenues in the succeeding year when services financed by the levy are being provided. In addition to property taxes for the City, taxes are collected for and remitted to the state and county governments as well as local school districts and technical college district. Taxes for all state and local governmental units billed in the current year for the succeeding year are reflected as receivables and due to other taxing units on the accompanying agency fund balance sheet.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)

2. Receivables (cont.)

Property tax calendar – 2005 tax roll:

Lien date and levy date	December 2005
Tax bills mailed	December 2005
Payment in full, or	January 31, 2006
First installment due	January 31, 2006
Second installment due	July 31, 2006
Personal property taxes in full	January 31, 2006
Tax sale – 2005 delinquent real estate taxes	October 2008

Accounts receivable have been shown net of an allowance for uncollectible accounts. Delinquent real estate taxes as of July 31 are paid in full by the county, which assumes the collection thereof. No provision for uncollectible accounts receivable has been made for the Water, Sewer, and Storm Water utilities because they have the right by law to place delinquent bills on the tax roll, and other delinquent bills are generally not significant.

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as “due to and from other funds.” Long-term interfund loans (noncurrent portion) are reported as “advances from and to other funds.” Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

In the governmental fund financial statements, advances to other funds are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

The City has received federal and state grant funds for economic development and housing rehabilitation loan programs to various businesses and individuals. The City records a loan receivable when the loan has been made and funds have been disbursed. The amount recorded as economic development and housing rehabilitation loans receivable has been reduced by an allowance for uncollectible accounts of \$76,000.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)

2. Receivables (cont.)

It is the City's policy to record deferred revenue for the net amount of the receivable balance. As loans are repaid, revenue is recognized. When new loans are made from the repayments, expenditures are recorded. Interest received from loan repayments is recognized as revenue when received in cash. Any unspent loan repayments at year end are presented as designated fund balance in the fund financial statements.

3. Inventories and Prepaid Items

Proprietary fund inventories, if material, are recorded at cost based on the FIFO method using the consumption method of accounting. Proprietary fund inventories are generally used for construction and for operation and maintenance work. They are not for resale. They are valued at cost based on weighted average, and charged to construction or operation and maintenance expense when used.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted Assets

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified. The excess of restricted assets over current liabilities payable from restricted assets will be used first for retirement of related long-term debt. The remainder, if generated from earnings, is shown as restricted net assets.

Funds on deposit with Wisconsin Municipal Insurance Company for payment of insurance claims are combined with twelve other participating governments. The City's deposit at year end was \$159,332. This amount is recorded as Restricted Assets in the Internal Service funds. See Note III.C. for additional information on restricted assets.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)

5. Capital Assets

Government –Wide Statements

Capital assets are defined by the government as assets with an initial cost of more than \$5,000 for general capital assets and for infrastructure assets, and an estimated useful life in excess of one year. All capital assets are valued at historical cost, or estimated historical cost if actual amounts are unavailable. Donated capital assets are recorded at their estimated fair value at the date of donation.

Prior to January 2003, infrastructure assets of governmental funds were not capitalized. Upon implementing GASB 34, governmental units are required to account for all capital assets, including infrastructure, in the government-wide statements prospectively from the date of implementation. Retroactive reporting of all major general infrastructure assets is encouraged but not required until January 1, 2007, when GASB 34 requires the City to retroactively report all major general infrastructure assets acquired since January 1, 1980. The City has retroactively reported all network infrastructure acquired by its governmental fund types.

Additions to and replacements of capital assets of business-type activities are recorded at original cost, which includes material, labor, overhead, and an allowance for the cost of funds used during construction when significant. For tax-exempt debt, the amount of interest capitalized equals the interest expense incurred during construction netted against any interest revenue from temporary investment of borrowed fund proceeds. \$51,900 of net interest was capitalized during the current year. The cost of renewals and betterments relating to retirement units is added to plant accounts. The cost of property replaced, retired or otherwise disposed of, is deducted from plant accounts and, generally, together with removal costs less salvage, is charged to accumulated depreciation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	40-50 Years
Land Improvements	30-55 Years
Machinery and Equipment	3-25 Years
Utility System	40-100 Years
Infrastructure	10-30 Years

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)

5. Capital Assets (cont.)

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same way as in the government-wide statements.

6. Other Assets

In governmental funds, debt issuance costs are recognized as expenditures in the current period, and premiums on debt are recognized as revenues in the current period. For the government-wide and the proprietary fund type financial statements, debt issuance costs are deferred and amortized over the life of the issue using the straight-line method. Gains or losses on prior refundings are amortized over the remaining life of the old debt, or the life of the new debt, whichever is shorter. The balance at year end for both premiums/discounts and gains/losses, as applicable, is shown as an increase or decrease in the liability section of the balance sheet.

7. Compensated Absences

Under terms of employment, employees accumulate vacation, compensatory time, sick leave and other benefits at various rates depending on bargaining group and length of service. Payments for vacation, compensatory time, and sick leave will be made at rates in effect when the benefits are used. Accumulated vacation and compensatory time liabilities at December 31, 2005 are determined on the basis of current salary rates and include salary related payments.

All vested vacation is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements, and are payable with expendable available resources.

8. Long-Term Obligations/Conduit Debt

All long-term obligations to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term obligations consist primarily of notes and bonds payable, and accrued compensated absences.

Long-term obligations for governmental funds are not reported as liabilities in the fund financial statements. The face value of debt (plus any premiums) are reported as other financing sources and payments of principal and interest are reported as expenditures. The accounting in proprietary funds is the same as it is in the government-wide statements.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)

8. Long-Term Obligations/Conduit Debt (cont.)

The City has approved the issuance of industrial revenue bonds (IRB) for the benefit of private business enterprises. IRB's are secured by mortgages or revenue agreements on the associated projects, and do not constitute indebtedness of the City. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. The total amount of IRB's outstanding at the end of the year is approximately \$3,395,000, made up of two issues.

9. Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. If they are not to be liquidated with expendable available financial resources, no liability is recognized in the governmental fund statements. The related expenditure is recognized when the liability is liquidated. Claims and judgments are recorded in the government-wide statements and proprietary funds as expenses when the related liabilities are incurred. There were no significant claims or judgments at year end.

10. Equity Classifications

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets less any unspent debt proceeds.
- b. Restricted net assets – Consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The net asset section includes an adjustment for capital assets owned by the business-type activities column, but financed by debt of the governmental activities column.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)

10. Equity Classifications (cont.)

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Unreserved fund balance includes funds set aside by management for specific uses, which are labeled “designated”. The balance of unreserved fund balance is labeled “undesignated”, which indicates it is available for appropriation. Proprietary fund equity is classified the same as in the government-wide statements.

11. Prior Period Information

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government’s financial statements for the year ended December 31, 2004, from which the summarized information was derived.

Comparative total data for the prior year have been presented for the general fund, certain special revenue funds and the debt service funds in the financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. However, comparative data by fund has not been presented in all statements since their inclusion would make the statements unduly complex and difficult to read. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year’s presentation.

NOTE II – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

Budgeting is an essential element of the financial planning, control, and evaluation process of the City. Formal budgets are prepared for governmental and proprietary funds. Budgetary information is derived from the annual operating budget and is presented using the same basis of accounting for each fund as described in Note I.C.

An annual budget has been adopted for the general, debt service, and special revenue funds, except for the Community Development and Home Grant funds, which have nonlapsing budgets. Flexible, annual budgets are approved for proprietary funds to provide for financial management. Project length budgets are adopted for capital project funds. Although these appropriations are specific for each project, they are reviewed and may be adjusted annually by the City council. Wisconsin Statute 65.90 requires that an annual budget be adopted for all funds. All annual appropriations lapse at year end.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE II – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (cont.)

A. BUDGETARY INFORMATION (cont.)

Purchase orders which are not completed by year end are recorded in the following year.

The following procedures, which comply with legal requirements, are used in establishing the budgetary data reflected in the financial statements:

1. Before October 25, the City manager must submit to the City council budget proposals for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the resources to finance them.
2. City council work sessions are held to review the submitted budget.
3. Public hearings are conducted to obtain taxpayer comments.
4. The budget is adopted through passage of a resolution in November; public notification is given, showing adopted budgets and the resulting tax levy.
5. During the fiscal year, the director of finance may authorize transfers of budgeted amounts within departments; however, transfers between departments must be approved by City council resolutions.
6. Formal budgetary integration is employed as a management control device during the year for the general, special revenue and debt service funds. Budgetary control for capital project funds is accomplished through the use of project controls.

The City council approved proposed 2005 budgets for governmental and proprietary funds on November 12, 2004.

During 2005, additional appropriations were approved in the General, Economic Development, Community Enhancement, Downtown Partners, Hazardous Materials Response, Public Library, City-County Health Department, and Debt Service – TIF #4 Funds. A summary of these council actions follows:

Fund	Original Appropriation	Carryover of Appropriations	Grants and Donations	Debt Service	Other	Final Appropriation
General fund	\$ 46,417,900	\$ (133,400)	\$ 153,900	\$ -	\$ (2,800)	\$ 46,435,600
Economic Development	676,030	62,000	-	-	-	738,030
Community Enhancement	983,800	-	-	-	32,200	1,016,000
Downtown Partners	127,900	-	10,000	-	-	137,900
Hazardous Materials Response	442,300	(47,000)	-	-	-	395,300
Public Library	3,687,400	-	5,000	-	-	3,692,400
City-County Health	3,974,900	67,300	202,800	-	-	4,245,000
Debt Service TIF #4	442,200	-	-	2,045,000	142,200	2,629,400

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE II – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (cont.)

B. LIMITATIONS ON THE CITY TAX LEVY

As part of Wisconsin's Act 25 (2005), new legislation was passed that limits the City's future tax levies. Generally, the City is limited to its prior tax levy dollar amount (excluding TIF districts), increased by the greater of the percentage change in the City's equalized value due to new construction, or 2%. Changes in debt service from one year to the next are generally exempt from this limit. The levy limit begins with the 2005 levy collected in 2006 and is set to expire after the 2006 levy.

NOTE III – DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool for all funds which is recorded on the statement of net assets as follows:

Per statement of net assets	
Unrestricted cash and investments	\$ 65,187,906
Restricted cash and investments	10,082,476
Per statement of net assets – fiduciary funds	<u>9,999,015</u>
 Total	 <u><u>\$ 85,269,397</u></u>

Total cash and investments consist of the following:

Petty cash and cash on hand	\$ 4,585
Deposits with financial institutions	35,306,980
Investments	<u>49,957,832</u>
 Total Cash and Investments	 <u><u>\$ 85,269,397</u></u>

See Note III.J. for component unit information.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

A. DEPOSITS AND INVESTMENTS (cont.)

Deposits

The City's deposits at year end were comprised of the following:

	Carrying Value	Bank Balance	Associated Risks
Demand deposits	\$ 35,306,980	\$ 38,070,490	Custodial credit risk

Deposits in each local and area bank are insured by the FDIC in the amount of \$100,000 for interest bearing accounts and \$100,000 for noninterest bearing accounts.

Bank accounts are also insured by the State Deposit Guarantee Fund in the amount of \$400,000. However, due to the relatively small size of the Guarantee Fund in relationship to the total deposits covered and other legal implications, recovery of material principal losses may not be significant to individual municipalities. This coverage has not been considered in determining custodial credit risk.

The City maintains collateral agreements with its bank. At December 31, 2005, the bank had pledged various government securities in the amount of \$63,727,955 to secure the City's deposits.

Investments

The City's investments at year end were comprised of the following:

	Carrying Value	Associated Risks
U.S. agencies	\$ 49,163,755	Concentration of credit risk, credit risk, interest rate risk
U.S. treasuries	243,900	Custodial credit risk, interest rate risk
Escrow account	159,332	Credit risk, interest rate risk
LGIP	390,845	Credit risk, interest rate risk
Total Cash and Investments	<u>\$ 49,957,832</u>	

Investments in the local government investment pool are covered under a surety bond issued by Financial Security Assurance, Inc. The bond insures against losses arising from principal defaults on substantially all types of securities acquired by the pool except U.S. Government and agency securities. The bond provides unlimited coverage on principal losses, reduced by any FDIC and State of Wisconsin Guarantee Fund insurance.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

A. DEPOSITS AND INVESTMENTS (cont.)

Custodial Credit Risk

Deposits – Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to the City.

The City does not have any deposits exposed to custodial credit risk.

Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The City does not have any investments exposed to custodial credit risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

As of December 31, 2005, the City's investments were rated as follows:

<u>Investment Type</u>	<u>Standard & Poor's</u>	<u>Moody's Investor Service</u>
U.S. agencies – implicitly guaranteed	AAA	Aaa

The City also had investments in the following external pools which are not rated:

Local Government Investment Pool

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

At December 31, 2005, the investment portfolio was concentrated as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Percentage of Portfolio</u>
FHLMC	U.S. agencies – implicitly guaranteed	21%
FHLB	U.S. agencies – implicitly guaranteed	60%
FNMA	U.S. agencies – implicitly guaranteed	18%

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS (cont.)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

As of December 31, 2005, the City's investments were as follows:

Investment	Maturity Date	Call Date	Fair Value
FHLMC Bullet	06/30/06	N/A	\$ 2,476,125
FHLMC Bullet	02/23/06	N/A	2,988,750
FHLMC Bullet	05/05/06	N/A	2,983,770
FHLMC Callable	11/22/06	05/22/06	1,983,920
FHLB Bullet	03/29/06	N/A	2,982,180
FHLB Callable	04/03/06	02/03/06	2,982,180
FHLB Bullet	03/30/06	N/A	2,983,140
FHLB Bullet	10/27/06	N/A	1,980,620
FHLB Callable	11/09/06	03/09/06	1,971,880
FHLB Bullet	12/22/06	N/A	992,810
FHLB Callable	10/12/06	04/12/06	1,980,000
FHLB Bullet	02/23/06	N/A	2,997,180
FHLB Callable	03/01/07	04/01/06	1,981,880
FHLB Callable	06/28/06	03/28/06	1,995,000
FHLB Callable	10/27/06	04/27/06	1,988,760
FHLB Callable	08/03/07	05/03/06	1,980,620
FNMA Bullet	08/11/06	N/A	4,943,750
FNMA Bullet	03/29/06	N/A	1,989,380
FNMA Bullet	06/15/06	N/A	1,982,500
FHLB	03/23/07	N/A	2,999,310
U.S. Treasury Securities	10/01/08	N/A	234,900
U.S. Treasury Securities	10/01/05	N/A	9,000
Total			<u>\$ 49,407,655</u>

Investment	Fair Value	Weighted Average Maturity (Days)
Local Government Investment Pool	\$ 390,845	28
WMMIC Escrow Pool	159,332	N/A

See Note I.D.1. for further information on deposit and investment policies.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

B. RECEIVABLES

Receivables as of year end for the government's individual major funds and nonmajor funds, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Governmental Activities	Gross	Allowance	Net	Amounts Not
	Receivables	For	Receivables	Expected to
Fund		Uncollectibles		Be Collected
				Within One
				Year
General	\$ 23,804,341	\$ -	\$ 23,804,341	\$ 317,149
Debt Service - General	7,202,541	-	7,202,541	3,790,308
Nonmajor Funds	13,164,991	112,834	13,052,157	6,064,112
Internal Service Funds	168,192	-	168,192	25,994

Business-Type Activities	Gross	Allowance	Net	Amounts Not
	Receivables	For	Receivables	Expected to
Fund		Uncollectibles		Be Collected
				Within One
				Year
Water Utility	\$ 2,900,277	\$ -	\$ 2,900,277	\$ 773,094
Sewer Utility	3,353,137	-	3,353,137	1,657,189
Storm Water Utility	541,444	1,050	540,394	11,190
Public Transit	1,292,253	-	1,292,253	-
Nonmajor Funds	108,478	-	108,478	64

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Property taxes levied for the subsequent year are not earned and cannot be used to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

B. RECEIVABLES (cont.)

	<u>Unavailable</u>	<u>Unearned</u>	<u>Totals</u>
Property taxes receivable	\$ -	\$ 27,260,416	\$ 27,260,416
Delinquent property taxes receivable	122,129	-	122,129
Accounts receivable	859,125	-	859,125
Loans receivable	6,006,153	-	6,006,153
Interest on special assessments	317,419	-	317,419
Special assessments not yet due	7,004,350	-	7,004,350
Grant receivable	<u>630,842</u>	<u>-</u>	<u>630,842</u>
Total Deferred/Unearned Revenue for Governmental Funds	<u>\$ 14,940,018</u>	<u>\$ 27,260,416</u>	<u>\$ 42,200,434</u>

Notes Receivable

At December 31, 2005 the General fund had one note receivable totaling \$25,000. This note will be paid by the Chippewa Valley Incubation Center which used the proceeds to partially fund a loan pool that is designed to provide beginning businesses with loans to purchase machinery and equipment.

The Community Development Special Revenue fund has notes receivable of \$2,655,272 at December 31, 2005, with maturities to the year 2018. These loans include \$753,279 for five small industry and economic development loans and \$1,901,993 for loans to residential and light commercial property owners for rehabilitation projects. The rehabilitation loan balance includes 270 loans which are all required to be secured by a lien on the property. Some loans can be deferred until the property is sold. Interest on these loans is either lower than market or zero. The City discontinued the small industry loan program in 1989.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

C. RESTRICTED ASSETS

The following represent the balances of the restricted assets:

Long Term Debt Accounts

- Redemption – Used to segregate resources accumulated for debt service payments over the next twelve months.
- Construction – Used to report proceeds of bond issuances that are restricted for use in construction.

Equipment Replacement Account

The water and sewer utility established an equipment replacement account to be used for significant mechanical equipment replacement as required by the Wisconsin Department of Natural Resources.

Following is a list of restricted assets at December 31, 2005:

	Governmental Activities	Business- Type Activities
Restricted Assets		
Redemption account	\$ -	\$ 2,003,636
Replacement account	-	760,000
TID #5 construction account	3,788,221	-
TID #7 construction account	252,679	-
TID #8 construction account	614,591	-
Stormwater construction account	-	2,504,017
Insurance claims account	159,332	-
	<u>4,814,823</u>	<u>5,267,653</u>
Total Restricted Assets		
	4,814,823	5,267,653
Less: Restricted Assets Not Funded by Revenues		
Construction accounts	(4,655,491)	(2,504,017)
Less: Current Liabilities Payable From Restricted		
Assets	-	(396,892)
Less: Insurance claims account	(159,332)	-
Total Restricted Net Assets as Reported	<u>\$ -</u>	<u>\$ 2,366,744</u>

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

D. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
Capital Assets Not Being Depreciated:				
Construction in progress	\$ 11,666,151	\$ 7,085,797	\$ 8,158,951	\$ 10,592,997
Land	13,970,303	742,642	83,632	14,629,313
Total Capital Assets Not Being Depreciated	<u>\$ 25,636,454</u>	<u>\$ 7,828,439</u>	<u>\$ 8,242,583</u>	<u>\$ 25,222,310</u>
Capital Assets Being Depreciated:				
Land improvements	\$ 2,812,660	\$ 1,426,416	\$ -	\$ 4,239,076
Buildings	18,455,996	214,773	13,885	18,656,884
Machinery and equipment	23,302,614	2,048,602	1,511,238	23,839,978
Infrastructure	106,842,413	6,618,015	1,560,600	111,899,828
Total Capital Assets Being Depreciated	<u>151,413,683</u>	<u>10,307,806</u>	<u>3,085,723</u>	<u>158,635,766</u>
Less: Accumulated Depreciation for:				
Land improvements	(716,023)	(186,645)	-	(902,668)
Buildings	(8,697,214)	(454,298)	8,986	(9,142,526)
Machinery and equipment	(11,520,534)	(1,880,857)	1,359,975	(12,041,416)
Infrastructure	(40,660,650)	(4,724,792)	871,250	(44,514,192)
Total Accumulated Depreciation	<u>(61,594,421)</u>	<u>(7,246,592)</u>	<u>2,240,211</u>	<u>(66,600,802)</u>
Capital Assets, Being Depreciated, Net	<u>\$ 89,819,262</u>	<u>\$ 3,061,214</u>	<u>\$ 845,512</u>	<u>\$ 92,034,964</u>

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

D. CAPITAL ASSETS (cont.)

Depreciation expense was charged to functions as follows:

Governmental Activities

General government	\$ 176,099
Public safety	548,095
Public works, which includes the depreciation of infrastructure	5,236,168
Health services	39,531
Culture and recreation	1,246,480
Development	<u>219</u>

Total Governmental Activities Depreciation Expense	<u><u>\$ 7,246,592</u></u>
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	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Business-Type Activities				
Capital Assets Not Being Depreciated:				
Construction in progress	\$ 4,069,493	\$ 6,686,793	\$ 2,417,703	\$ 8,338,583
Land	<u>14,631,579</u>	<u>967,741</u>	<u>-</u>	<u>15,599,320</u>
Total Capital Assets Not Being Depreciated	<u><u>\$ 18,701,072</u></u>	<u><u>\$ 7,654,534</u></u>	<u><u>\$ 2,417,703</u></u>	<u><u>\$ 23,937,903</u></u>
Other Capital Assets				
Completed construction not classified	\$ 7,354,815	\$ -	\$ 7,354,815	\$ -
Improvements	2,948,683	13,214	-	2,961,897
Buildings	30,055,976	9,200	-	30,065,176
Distribution and collection systems	115,972,602	10,468,716	649,101	125,792,217
Source of supply system	889,335	-	-	889,335
Machinery and equipment	<u>13,845,788</u>	<u>52,051</u>	<u>-</u>	<u>13,897,839</u>
Total Capital Assets Being Depreciated	<u><u>171,067,199</u></u>	<u><u>10,543,181</u></u>	<u><u>8,003,916</u></u>	<u><u>173,606,464</u></u>

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

D. CAPITAL ASSETS (cont.)

	Beginning Balance	Additions	Deletions	Ending Balance
Less: Accumulated depreciation for:				
Completed construction not classified \$	(66,455)	\$ -	\$ 66,455	\$ -
Improvements	(1,171,123)	(126,521)	-	(1,297,644)
Buildings	(12,981,683)	(741,830)	-	(13,723,513)
Distribution and collection systems	(27,187,555)	(2,166,228)	523,951	(28,829,832)
Source of supply system	(584,676)	(23,987)	-	(608,663)
Machinery and equipment	(7,116,481)	(917,006)	-	(8,033,487)
 Total Accumulated Depreciation	 (49,107,973)	 (3,975,572)	 590,406	 (52,493,139)
 Total capital assets, being depreciated, net	 <u>\$ 21,959,226</u>	 <u>\$ 6,567,609</u>	 <u>\$ 7,413,510</u>	 <u>\$ 121,113,321</u>

Depreciation expense was charged to functions as follows:

Business-Type Activities

Water	\$ 1,359,945
Sewer	1,187,569
Storm Water	468,647
Public Transit	563,862
Parking Utility	190,758
Hobbs Ice Center	62,593
Outdoor Pool	49,470
Other	<u>92,728</u>
 Total Business – Type Activities Depreciation Expense	 <u>\$ 3,975,572</u>

The amount of depreciation expense charged to “other” above is the amount charged for joint metering in 2005.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

E. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund receivables and payables including any overdrafts on pooled cash and investment accounts:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Special Revenue – Public Library	\$ 7,436
General fund	Special Revenue – City-County Health	14,448
General fund	Special Revenue – Community Enhancement	1,403
General fund	Special Revenue – Home Grant	115
General fund	Special Revenue – Community Development	1,124
General fund	Enterprise – Public Transit	947,720
General fund	Enterprise – Hobbs Ice Center	52,838
Subtotal – Fund financial statements		1,025,084
Less: Fund eliminations		(24,526)
Total interfunds		1,000,558
Interfund advances		5,751,507
Adjustment to reflect internal service fund activities related to enterprise funds		(188,133)
Total – Government-Wide Statement of Net Assets		<u>\$ 6,563,932</u>

These interfunds resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All amounts are expected to be repaid within one year.

For the statement of net assets, interfund balances which are owed within the governmental activities or business-type activities are netted and eliminated.

The general fund is advancing funds to the water utility, sewer utility, and the outdoor pool fund. The general fund is charging the other funds interest on the advances based on the balance outstanding before the principal payment for the current year. The interest rate on the water utility advances is 5.8% – 7.7%. The rate being charged on the sewer utility advance is 7.25%. The rate being charged to the outdoor pool is 2.875% – 3.35%.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

E. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS (cont.)

The following is a schedule of interfund advances:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Amount Not Due Within One Year</u>
General fund	Water Utility	\$ 4,297,602	\$ 4,007,677
General fund	Sewer Utility	888,905	854,207
General fund	Outdoor Pool – non-major	<u>565,000</u>	<u>440,000</u>
Total – Government-Wide Statement of Net Assets and Financial Statements		<u>\$ 5,751,507</u>	<u>\$ 5,301,884</u>

The principle purpose of the advances is to advance funds for capital construction projects and collateral on a letter of credit.

Annual repayment of principal and interest are made according to the following schedule:

<u>Years</u>	<u>Advances</u>		<u>Totals</u>
	<u>Principal</u>	<u>Interest</u>	
2006	\$ 449,623	\$ 395,704	\$ 845,327
2007	488,365	368,135	856,500
2008	523,843	338,376	862,219
2009	551,186	306,271	857,457
2010	430,530	274,416	704,946
2011 – 2015	2,219,447	871,513	3,090,960
2016 - 2020	<u>1,088,513</u>	<u>186,209</u>	<u>1,274,722</u>
Totals	<u>\$ 5,751,507</u>	<u>\$ 2,740,624</u>	<u>\$ 8,492,131</u>

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

E. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS (cont.)

The following is a schedule of interfund transfers:

Fund Transferred To	Fund Transferred From	Amount	Principal Purpose
General fund	Community Enhancement	\$ 33,600	To fund general fund special events
	Community Development	41,393	To fund community liaison
	Community Development	37,712	To fund coalition for youth
	Water Utility	1,087,868	Payment in lieu of tax
	Sewer Utility	100,000	To pay back contributed capital
	Sewer Utility	28,785	Joint meter costs
	Storm Water Utility	625	Joint meter costs
	Storm Water Utility	201,200	Fund street cleaning costs
Special Revenue			
Cemetery Maintenance	General fund	216,804	Operating subsidy
Downtown Partners	Economic Development	87,700	Operating subsidy
City-County Health	Community Development	53,001	Fund code enforcement project
Debt Service			
Debt Service - General	General fund	2,735,233	Debt service payments
Capital Projects			
Buildings and Equipment	General fund	970,000	Fund various projects
Buildings and Equipment	Community Development	157,947	Fund comprehensive plan/home ownership program
Street Projects	General fund	1,000,000	Fund street construction
Parks and Recreation	General fund	135,500	Fund park development projects
Parks and Recreation	Community Enhancement	164,500	Fund park development projects
Parks and Recreation	Community Development	291,178	Fund park development projects
TID #8 Downtown Development	Risk Management	176,900	Debt service payments
Library Buildings and Equipment	Public Library	145,900	Fund facility improvements
Environmental Improvement	Risk Management	95,000	Fund environmental projects

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

E. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS (cont.)

Fund Transferred To	Fund Transferred From	Amount	Principal Purpose
Enterprise			
Parking Utility	General fund	\$ 100,000	Subsidize parking ramp renovations
Parking Utility	Economic development	200,000	Fund new parking lot
Public Transit	General fund	759,775	Operating subsidy
Hobbs Ice Center	General fund	44,491	Operating subsidy
Hobbs Ice Center	General fund	30,900	Subsidize facilities improvements
Hobbs Ice Center	Community Enhancement	47,500	Subsidize facilities improvements
Outdoor Pool	General fund	176,117	Operating subsidy
Outdoor Pool	General fund	39,400	Subsidize facility improvements
Internal Service			
Central Equipment	Hazardous materials	156,067	Fund vehicle purchase
Central Equipment	General fund	<u>5,300</u>	Fund fire equipment purchase
Subtotal – Fund Financial Statements		9,320,396	
Less: Fund eliminations		<u>(9,300,101)</u>	
Total – Government-Wide Statement of Activities		<u>\$ 20,295</u>	

Generally, transfers are used to (1) move revenues from the fund that collects them to the fund that the budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

F. LONG-TERM OBLIGATIONS

Long-term obligations activity for the year ended December 31, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds and Notes Payable:					
General obligation bonds	\$ 47,465,000	\$ 7,290,000	\$ 5,800,000	\$ 48,955,000	\$ 3,755,000
State trust fund notes	227,340	-	81,502	145,838	34,345
Sub-total	<u>47,692,340</u>	<u>7,290,000</u>	<u>5,881,502</u>	<u>49,100,838</u>	<u>3,789,345</u>
Other Liabilities					
Vested compensated absences	2,070,171	2,244,069	2,211,348	2,102,892	2,102,892
Police and fire pensions	768,995	-	31,534	737,461	142,357
State retirement fund	8,702,973	652,922	323,135	9,032,760	585,094
Duty disability	3,884,142	313,420	367,536	3,830,026	390,788
Unpaid self-insurance claims	885,151	1,370,820	1,108,316	1,147,655	220,000
Total Other Liabilities	<u>16,311,432</u>	<u>4,581,231</u>	<u>4,041,869</u>	<u>16,850,794</u>	<u>3,441,131</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 64,003,772</u>	<u>\$ 11,871,231</u>	<u>\$ 9,923,371</u>	<u>\$ 65,951,632</u>	<u>\$ 7,230,476</u>
BUSINESS-TYPE ACTIVITIES					
Bonds and Notes Payable:					
General obligation bonds	\$ 12,140,000	\$ 1,760,000	\$ 485,000	\$ 13,415,000	\$ 540,000
State trust fund notes	320,000	-	22,742	297,258	31,695
Revenue bonds	11,685,000	-	1,090,000	10,595,000	1,135,000
Sub-total	<u>24,145,000</u>	<u>1,760,000</u>	<u>1,597,742</u>	<u>24,307,258</u>	<u>1,706,695</u>
Other Liabilities:					
Vested compensated absences	<u>337,377</u>	<u>429,387</u>	<u>377,314</u>	<u>389,450</u>	<u>389,450</u>
Total Business-Type Activities Long-Term Liabilities	<u>\$ 24,482,377</u>	<u>\$ 2,189,387</u>	<u>\$ 1,975,056</u>	<u>\$ 24,696,708</u>	<u>\$ 2,096,145</u>

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

F. LONG-TERM OBLIGATIONS (cont.)

General Obligation Debt

All general obligation notes and bonds payable are backed by the full faith and credit of the City. Tax incremental bonds are paid by segregated property taxes, but are ultimately backed by the full faith and credit of the City if incremental taxes are inadequate to meet payments. Business-type activities debt is payable by revenues from user fees of those funds or, if the revenues are not sufficient, by future tax levies.

In accordance with Wisconsin Statutes, total general obligation indebtedness of the City may not exceed five percent of the equalized value of taxable property within the City's jurisdiction. The debt limit as of December 31, 2005, was \$187,052,135. Total general obligation debt outstanding at year end was \$62,813,096.

	Date of Issue	Final Maturity	Interest Rates	Original Indebted- ness	Balance 12-31-05
Governmental Activities					
General Obligation Bonds					
Corporate purpose	09/01/96	04/01/07	4.8-5.1%	\$2,950,000	\$ 590,000
Corporate purpose	08/01/97	04/01/17	4.9-5.35%	5,185,000	2,455,000
Tax incremental bonds	08/01/97	04/01/17	4.9-5.35%	5,815,000	4,165,000
Corporate purpose	09/15/98	04/01/18	4.45-4.5%	6,650,000	4,080,000
Corporate purpose	09/01/99	04/01/19	4.65-5.5%	6,450,000	3,585,000
Tax incremental bonds	09/01/99	04/01/16	4.65-5.5%	395,000	315,000
Corporate purpose	08/01/00	04/01/20	5.0-5.5%	4,730,000	3,400,000
Tax incremental bonds	08/08/00	04/01/20	5.0-5.5%	1,780,000	1,620,000
Corporate purpose	08/15/01	04/01/21	4.13-5.0%	8,700,000	7,005,000
Corporate purpose	08/27/02	10/01/15	2.85-3.875%	4,120,000	2,480,000
Corporate purpose	08/27/02	10/01/22	3.7-4.7%	3,700,000	2,965,000
Tax incremental bonds	09/15/03	04/01/09	2.75-4.0%	900,000	850,000
Corporate purpose	09/15/03	04/01/14	3.625-4.8%	9,870,000	9,240,000
Corporate purpose	09/15/03	04/01/14	3.5-3.75%	4,405,000	4,015,000
Corporate purpose	09/01/04	04/01/14	3.5-3.625%	6,270,000	5,985,000
Tax incremental bonds	09/09/04	04/01/14	6.28%	570,000	570,000
Corporate purpose	06/01/05	04/01/25	3.5-4.25%	5,850,000	5,850,000
Tax incremental bonds	12/01/05	04/01/19	3.7-4.0%	3,000,000	3,000,000
Tax incremental bonds	06/01/05	04/01/22	3.7-4.1%	200,000	200,000
			Subtotal		62,370,000
Less: Enterprise portion of G.O. Bonds					(13,415,000)
Total– Governmental Activities – G.O. Bonds					48,955,000

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

F. LONG-TERM OBLIGATIONS (cont.)

General Obligation Debt (cont.)

	<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Indebted- ness</u>	<u>Balance 12-31-05</u>
Governmental Activities					
General Obligation Debt					
State trust fund note	05/14/04	03/15/09	4%	\$ 180,000	\$ 145,838
Total Governmental Activities – General Obligation Debt					<u>\$ 49,100,838</u>
Business-Type Activities					
General Obligation Debt					
State trust fund note	08/27/03	3/15/13	4.5%	\$ 320,000	\$ 297,258
Plus: Enterprise portion of G.O.Bonds					<u>13,415,000</u>
Total Business-Type Activities General Obligation Debt					<u>13,712,258</u>
Total General Obligation Debt					<u>\$ 62,813,096</u>

Debt service requirements to maturity are as follows:

<u>Years</u>	<u>Governmental Activities General Obligation Debt</u>		<u>Business-Type Activities General Obligation Debt</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 3,789,345	\$ 2,181,396	\$ 571,695	\$ 631,396
2007	4,075,719	1,975,159	623,123	583,567
2008	3,597,140	1,811,157	654,584	556,541
2009	3,753,634	1,652,106	686,169	527,910
2010	3,205,000	1,499,329	727,796	497,451
2011 – 2015	16,165,000	5,225,347	4,118,891	1,960,892
2016 – 2020	10,880,000	1,937,633	4,485,000	933,220
2021 – 2025	<u>3,635,000</u>	<u>286,885</u>	<u>1,845,000</u>	<u>146,146</u>
Totals	<u>\$ 49,100,838</u>	<u>\$ 16,569,012</u>	<u>\$ 13,712,258</u>	<u>\$ 5,837,123</u>

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

F. LONG-TERM OBLIGATIONS (cont.)

Revenue Debt

Business-type activities revenue bonds are payable only from revenues derived from the operation of the water and sewer utilities.

Revenue debt payable at December 31, 2005 consists of the following:

Business-Type Activities Revenue Debt

	Date of Issue	Final Maturity	Interest Rates	Original Indebted- ness	Balance 12-31-05
<u>Water Utility</u>					
Revenue bonds	09/01/96	10/01/10	5-5.5%	\$ 1,000,000	\$ 525,000
Revenue bonds	08/01/97	10/01/16	5.15-5.4%	3,500,000	2,585,000
Revenue bonds	08/15/01	10/01/16	4-4.8%	4,615,000	4,060,000
Revenue bonds	09/15/03	10/01/17	2.5-4.3%	2,310,000	1,935,000
				Total Water Utility	9,105,000
<u>Sewer Utility</u>					
Revenue bonds	08/27/02	10/01/08	2.5-3.0%	\$ 2,845,000	1,490,000
				Total Sewer Utility	1,490,000
				Total Business-type Activities Revenue Debt	<u>\$ 10,595,000</u>

Debt service requirements to maturity are as follows:

<u>Years</u>	<u>Business-Type Activities Revenue Debt</u>		<u>Totals</u>
	<u>Principal</u>	<u>Interest</u>	
2006	\$ 1,135,000	\$ 452,568	\$ 1,587,568
2007	1,175,000	414,904	1,589,904
2008	1,210,000	373,736	1,583,736
2009	730,000	328,781	1,058,781
2010	765,000	297,039	1,062,039
2011 – 2015	4,420,000	932,558	5,352,558
2016 – 2017	1,160,000	62,650	1,222,650
Totals	<u>\$ 10,595,000</u>	<u>\$ 2,862,236</u>	<u>\$ 13,457,236</u>

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

F. LONG-TERM OBLIGATIONS (cont.)

Other Debt Information

Estimated payments of compensated absences are not included in the debt service requirement schedules. The compensated absences liability attributable to governmental activities will be liquidated primarily by the general fund.

A statutory mortgage lien upon the City's system and any additions, improvements and extensions thereto is created by Section 66.066 of the Wisconsin Statutes as provided for in the ordinances creating the revenue bond issue. The City's system and the earnings of the system remain subject to the lien until payment in full of the principal and interest on the bonds.

There are a number of limitations and restrictions contained in the various bond indentures and loan agreements. The City believes it is in compliance with all significant limitations and restrictions, including federal arbitrage regulations.

The City has never defaulted on any of its prior outstanding indebtedness. Short-term debt is not issued for operational purposes.

Deferred Amount on Refunding

Deferred amounts on refunding arise from advance refunding of debt. The difference between the cost of the securities placed in trust for future payment of refunded debt and the net carrying value of that debt is deferred and amortized as a component of interest expense over the shorter of the term of the refunding issue or the original term of the refunded debt. The unamortized amount is reported as a deduction from debt payable in the government-wide and proprietary fund statements. Amortization for 2005 was \$9,146, all of which is for the Water Utility.

G. LEASE DISCLOSURES

The City has no material leases as lessee or lessor.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

H. NET ASSETS/FUND BALANCES

Net assets reported on the government wide statement of net assets at December 31, 2005 includes the following:

Governmental Activities

Invested in capital assets, net of related debt	
Construction in progress	\$ 10,592,997
Land	14,629,313
Other capital assets, net of accumulated depreciation	92,034,964
Less: related long-term debt outstanding (excluding unspent capital related debt proceeds)	<u>(38,118,819)</u>
Total Invested in Capital Assets	79,138,455
Restricted	
Restricted deposits	925,828
Unspent grant proceeds	389,198
Restricted for new loans	1,779,168
Restricted per RCU agreement	323,690
Debt service	<u>14,715,422</u>
Total Restricted	18,133,306
Unrestricted	<u>30,056,232</u>
Total Governmental Activities Net Assets	<u><u>\$127,327,993</u></u>

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

H. NET ASSETS/FUND BALANCES (cont.)

Governmental Activities (cont.)

Governmental fund balances reported on the fund financial statements at December 31, 2005 include the following:

Reserved

Major Funds

General Fund

Notes receivable	\$ 25,000
Prepaid items	522,036
Advances to other funds (noncurrent portion)	<u>5,301,884</u>
Total	<u>\$ 5,848,920</u>

General Debt Service Fund

Reserved for debt service	<u>\$ 5,898,985</u>
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Non-Major Funds

Debt Service – TIF No. 4

Reserved for TID No. 4 debt service	\$ 1,285,818
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Debt Service – TIF No. 6

Reserved for TID No. 6 debt service	598,604
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Special Revenue – Economic Development

Reserved for grant proceeds	389,198
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Special Revenue – Home Grant

Reserved for grant proceeds	18,868
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Capital Projects – TIF No. 8 Downtown Development

Reserved for capital contracts	513,052
Reserved for bond construction	<u>614,591</u>
Total	<u>1,127,643</u>

Capital Projects – TIF No. 7 Soo Line Development

Reserved for capital contracts	7,173
Reserved for bond construction	<u>252,679</u>
Total	<u>259,852</u>

Capital Projects – TIF No. 5 Gateway NW Business Park

Reserved for bond construction	3,788,221
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CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

H. NET ASSETS/FUND BALANCES (cont.)

Governmental Activities (cont.)

Capital Projects - Street Projects Reserved for capital contracts	\$ 206,492
Capital Projects – Bridge Projects Reserved for capital contracts	257,343
Capital Projects – Buildings and Equipment Reserved for capital contracts	133,407
Capital Projects – Parks and Recreation Projects Reserved for capital contracts	982,915
Capital Projects – Environmental Improvements - Landfill Reserved for capital contracts	3,935
Reserved for environmental remediation	<u>323,690</u>
Total	<u>327,625</u>
Capital Projects – Library Buildings and Equipment Reserved for capital contracts	<u>20,804</u>
Total reserved fund balance – nonmajor funds	<u><u>\$ 9,396,790</u></u>
Unreserved, undesignated	
Major Funds	
General fund	<u><u>\$ 2,821,438</u></u>
Unreserved, designated	
Major Funds	
General fund designated for	
Working capital	\$ 3,700,000
Subsequent year expenditures	<u>2,359,964</u>
Total	<u><u>\$ 6,059,964</u></u>
Debt Service – General designated for	
Subsequent year expenditures	<u><u>\$ 88,400</u></u>

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

H. NET ASSETS/FUND BALANCES (cont.)

Unreserved, designated

Non-Major Funds

Special Revenue Funds designated for

Cemetery Maintenance	- Subsequent year expenditures	\$ 142,442
Hazardous Materials Response	- Subsequent year expenditures	223,963
Community Development	- Subsequent year expenditures	281,715
Economic Development	- Economic development	950,000
	- Subsequent year expenditures	3,995,856
	- Code compliance loans	100,000
	- Downtown facade loans	10,000
Community Enhancement	- Subsequent year expenditures	44,067
Public Library	- Library funds	67,362
	- Capital projects	162,800
	- Subsequent year expenditures	519,857
City-County Health Department	- Future expenditures	56,400
	- Subsequent year expenditures	574,154
Downtown Partners	- Subsequent year expenditures	56,648
	- Loft matching program	<u>12,000</u>
Subtotal – Special Revenue Funds		7,197,264

Debt Service Funds designated for

Debt Service TIF #4	- Subsequent year expenditures	167,300
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Capital Projects Funds designated for

TIF #5 Gateway NW Business Park	- Subsequent year expenditures	1,431,599
TIF #7 Soo Line Development	- Subsequent year expenditures	11,868
TIF #8 Downtown Development	- Subsequent year expenditures	1,111,450
Street Projects	- Subsequent year expenditures	1,516,432
Bridge Projects	- Subsequent year expenditures	490,925
Buildings and Equipment	- Subsequent year expenditures	1,979,461
Parks and Recreation Projects	- Subsequent year expenditures	457,655
Environmental Improvements-Landfill	- Subsequent year expenditures	1,519,070
Library Buildings and Equipment	- Subsequent year expenditures	<u>695,538</u>

Subtotal – Capital Projects Funds	<u>9,213,998</u>
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Total designations – nonmajor funds	<u>\$ 16,578,562</u>
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CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

H. NET ASSETS/FUND BALANCES (cont.)

Business-Type Activities

Invested in capital assets, net of related debt	
Construction in progress	\$ 8,338,583
Land	15,599,320
Other capital assets, net of accumulated depreciation	121,113,325
Less: related long-term debt outstanding (excluding unspent capital related debt proceeds)	<u>(21,803,241)</u>
Total Invested in Capital Assets	<u>123,247,987</u>
Restricted	
Debt service payments	1,606,744
Equipment replacement	<u>760,000</u>
Total Restricted	<u>2,366,744</u>
Unrestricted	<u>14,878,421</u>
Total Business-Type Activities Net Assets	<u>\$ 140,493,152</u>

I. RESTATEMENT OF NET ASSETS

Governmental activities net assets and the parking utility net assets have been restated for a prior year transfer of a parking lot from governmental activities to the parking utility. An additional adjustment is required in the governmental activities due to expenses that were capitalized in error.

Governmental Activities

Net Assets at December 31, 2004 (as reported)	\$ 129,702,510
Subtract: Adjustment for parking lot	(500,792)
Subtract: Adjustment for overcapitalization	<u>(352,273)</u>
Net Assets at January 1, 2005 (as restated)	<u>\$ 128,849,445</u>

Parking Utility

Net Assets at December 31, 2004 (as reported)	\$ 3,419,027
Add: Adjustment for parking lot	<u>500,792</u>
Net Assets at January 1, 2005 (as restated)	<u>\$ 3,919,819</u>

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

J. COMPONENT UNITS

Housing Authority

This report contains the Housing Authority of the City of Eau Claire (Housing Authority), which is included as a component unit. Financial information is combined with the City's other component units and presented as a separate column in the statement of net assets and statement of activities.

In addition to the basic financial statements and the preceding notes to financial statements which apply, the following additional disclosures are considered necessary for a fair presentation.

a. Basis of Accounting/Measurement Focus

The Housing Authority follows the full accrual basis of accounting and the flow of economic resources measurement focus.

b. Deposits and Investments

Total cash and investments at year end consist of the following:

Petty cash and cash on hand	\$ 1,450
Deposits with financial institutions	428,926
Investments	1,991,489
Cash with escrow agent (pooled funds)	<u>1,552,016</u>

Total Cash and Investments	<u><u>\$ 3,973,881</u></u>
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Reconciliation to financial statements:

Per statement of net assets

Unrestricted cash and investments	\$ 2,421,865
Restricted cash and investments	<u>1,552,016</u>

Total	<u><u>\$ 3,973,881</u></u>
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The Housing Authority has adopted an investment policy. That policy states that the Housing Authority must invest its funds in securities that are approved by the U.S. Department of Housing and Urban Development. As of December 31, 2005, the Housing Authority is in compliance with this policy. The policy does not address the interest rate risk and custodial credit risk that the Housing Authority has with its deposits and investments.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS

J. COMPONENT UNITS (cont.)

b. Deposits and Investments (cont.)

Deposits

The Housing Authority's deposits at year end were comprised of the following:

	<u>Carrying Value</u>	<u>Bank Balance</u>	<u>Associated Risks</u>
Demand deposits	\$ 428,926	\$ 591,699	Custodial credit risk

Deposits in each local and area bank are insured by the FDIC in the amount of \$100,000 for interest bearing accounts and \$100,000 for noninterest bearing accounts.

Bank accounts are also insured by the State Deposit Guarantee Fund in the amount of \$400,000. However, due to the relatively small size of the Guarantee Fund in relationship to the total deposits covered and other legal implications, recovery of material principal losses may not be significant to individual municipalities. This coverage has been considered in determining custodial credit risk.

Investments

The Housing Authority's investments at year end were comprised of the following:

	<u>Carrying Value</u>	<u>Bank Balance</u>	<u>Associated Risks</u>
U.S. treasuries	\$ 1,991,489	\$ 1,989,819	Interest rate risk, Custodial credit risk

The Securities Investor Protection Corporation (SIPC), created by the Securities Investor Protection Act of 1970, is an independent government-sponsored corporation (not an agency of the U.S. government). The Housing Authority's SIPC membership provides account protection up to a maximum of \$500,000 per customer, of which \$100,000 may be in cash. Wells Fargo Brokerage Services has purchased SIPC-like protection from Behnke & Company, Inc. for supplemental protection of up to \$149,500,000 per customer.

The Housing Authority had no significant type of investment during the year not included in the above schedule.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS

J. COMPONENT UNITS (cont.)

b. Deposits and Investments (cont.)

Custodial Credit Risk

Deposits – Custodial credit risk is the risk that in the event of a financial institution failure, the Housing Authority's deposits may not be returned to the Housing Authority.

The Housing Authority does not have any deposits exposed to custodial credit risk.

Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Housing Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Housing Authority does not have any investments exposed to custodial credit risk.

Interest Rate Risk

As of December 31, 2005, the Housing Authority's investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
US Treasuries	<u>\$ 1,989,819</u>	.348
Total Fair Value	<u><u>\$ 1,989,819</u></u>	

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

J. COMPONENT UNITS (cont.)

c. Receivables

Accounts Receivable - tenants	\$	8,205
Less: Allowance for Uncollectibles		(663)
Interest receivable		6,455
Due from other governments		17,569
Other receivables		<u>2,636</u>
Net Total Receivables	\$	<u>34,202</u>

All receivables are expected to be collected within one year.

d. Capital asset activity for the year ended December 31, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	<u>\$ 1,315,404</u>	<u>\$ 19,500</u>	<u>\$ 11,505</u>	<u>\$ 1,323,399</u>
Other Capital Assets				
Land and building improvements	\$ 1,179,480	\$ -	\$ -	\$ 1,179,480
Buildings	13,588,489	735,301	78,807	14,244,983
Machinery and equipment	<u>750,497</u>	<u>83,818</u>	<u>25,621</u>	<u>808,694</u>
Total Capital Assets				
Being Depreciated	<u>15,518,466</u>	<u>819,119</u>	<u>104,428</u>	<u>16,233,157</u>
Less: Accumulated depreciation for:				
Land and building improvements	360,255	54,540	-	414,795
Buildings	4,525,858	359,265	17,659	4,867,464
Machinery and equipment	<u>370,556</u>	<u>58,491</u>	<u>25,620</u>	<u>403,427</u>
Total Accumulated Depreciation	<u>5,256,669</u>	<u>\$ 472,296</u>	<u>\$ 43,279</u>	<u>5,685,686</u>
Net Other Capital Assets	<u>\$ 10,261,797</u>			<u>\$ 10,547,471</u>

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

J. COMPONENT UNITS (cont.)

e. Long-Term Obligations

Long-term obligations activity for the year ended December 31, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Bonds and Notes Payable:					
Revenue bonds	\$ 130,000	\$ -	\$ 20,000	\$ 110,000	\$ 20,000
Mortgage notes	1,631,569	-	263,310	1,368,259	283,836
Other loans/notes	1,355,423	-	7,378	1,348,045	7,792
Subtotal	3,116,992	-	290,688	2,826,304	311,628
Other Liabilities:					
Vested compensated absences	42,500	39,365	30,505	51,360	39,645
Total Long-Term Liabilities	<u>\$ 3,159,492</u>	<u>\$ 39,365</u>	<u>\$ 321,193</u>	<u>\$ 2,877,664</u>	<u>\$ 351,273</u>

Revenue bonds are payable only from revenues derived from the operation of the Housing Authority.

Revenue debt payable at December 31, 2005 consists of the following:

Owen Rust Memorial Apartments

Series 1993 housing refunding revenue bonds, \$295,000 face value, payable in semi-annual installments including interest at 2.8% - 5.25% through December 1, 2010.

	<u>\$ 110,000</u>
Total Revenue Debt	<u>\$ 110,000</u>

Debt service requirements to maturity are as follows:

	Principal	Interest
2006	\$ 20,000	\$ 5,775
2007	20,000	4,725
2008	20,000	3,675
2009	25,000	2,625
2010	25,000	1,313
Totals	<u>\$ 110,000</u>	<u>\$ 18,113</u>

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

J. COMPONENT UNITS (cont.)

e. Long-Term Obligations (cont.)

MORTGAGE NOTES

Mortgage notes are payable only from revenues derived from the operation of the Housing Authority.

Mortgage notes payable at December 31, 2005 consists of the following:

Park Towers Apartments

Mortgage note payable to WHEDA in monthly installments of \$31,434 including interest at 7.53%, through March, 2010. Secured by the project's real estate. \$ 1,368,259

Total Mortgage Notes \$ 1,368,259

Debt service requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>
2006	\$ 283,836	\$ 93,367
2007	305,962	71,241
2008	329,813	47,390
2009	355,523	21,680
2010	<u>93,125</u>	<u>1,171</u>
Totals	<u>\$ 1,368,259</u>	<u>\$ 234,849</u>

OTHER LOANS/NOTES PAYABLE

Other loans and notes payable at December 31, 2005 consist of the following:

Substantial Rehabilitation

1982 note payable to the City of Eau Claire Community Development Block Grant Program, requires monthly installment of \$777, which includes principal and interest at a rate of 5%, with a balloon payment in 2009. \$ 34,087

Park Towers Apartments

1992 note payable from the City of Eau Claire Community Development Block Grant Program, the note is non-interest bearing and is due on demand should certain conditions be met. 195,462

1991 note payable to the City of Eau Claire, Community Development Block Grant Program. Unsecured, non-interest bearing, and due on demand. 63,000

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

J. COMPONENT UNITS (cont.)

e. Long-Term Obligations (cont.)

Home Ownership

1991 note payable to the City of Eau Claire Community Development Block Grant Program, the note is non-interest bearing and is due on demand should certain conditions be met. \$ 331,641

Affordable Housing

2005 note payable to the City of Eau Claire HOME Investment Partnerships Program is non-interest bearing and will be forgiven on December 30, 2023, if the property remains in the name of the Housing Authority and is occupied primarily by low income persons. The note is due on demand, if conditions are not met. 213,237

2004 note payable to the City of Eau Claire HOME Investment Partnerships Program is non-interest bearing and will be forgiven on January 13, 2023, if the property remains in the name of the Housing Authority and is occupied primarily by low income persons. The note is due on demand, if conditions are not met. 150,000

2001 note payable to the City of Eau Claire HOME Investment Partnerships Program is non-interest bearing and will be forgiven on March 1, 2021, if the property remains in the name of the Housing Authority and is occupied primarily by low income persons. The note is due on demand, if conditions are not met. 120,618

1997 note payable to the City of Eau Claire Community Development Block Grant Program is non-interest bearing and will be forgiven on December 30, 2016, if the property remains in the name of the Housing Authority and is occupied primarily by low income persons. The note is due on demand, if conditions are not met. 150,000

1996 note payable to the City of Eau Claire HOME Investment Partnerships Program is non-interest bearing and will be forgiven on December 30, 2016, if the property remains in the name of the Housing Authority and is occupied primarily by low income persons. The note is due on demand, if conditions are not met. 90,000

Total Notes Payable \$ 1,348,045

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

J. COMPONENT UNITS (cont.)

e. Long-Term Obligations (cont.)

Debt service requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>
2006	\$ 7,792	\$ 1,532
2007	8,191	1,133
2008	8,610	714
2009	<u>9,494</u>	<u>40</u>
	34,087	3,419
 Demand notes with no set payment schedule	 <u>1,313,958</u>	 <u>-</u>
 Totals	 <u><u>\$ 1,348,045</u></u>	 <u><u>\$ 3,419</u></u>

OTHER DEBT INFORMATION

Estimated payments of compensated absences are not included in the debt service requirement schedules.

There are a number of limitations and restrictions contained in the various bond indentures and loan agreements. The Housing Authority believes it is in compliance with all significant limitations and restrictions.

f. Net Assets

Net assets reported on the statement of net assets at December 31, 2005 includes the following:

Invested in capital assets, net of related debt	
Land	\$ 1,323,399
Other capital assets, net of accumulated depreciation	10,547,471
Less: related long-term debt outstanding (excluding unspent capital related debt proceeds)	<u>(2,826,304)</u>
Total Invested in Capital Assets	<u>9,044,566</u>
Restricted	
Escrow for replacement	1,432,685
Escrow for development costs	112,882
Escrow for residual receipts	6,035
Escrow for taxes	<u>414</u>
Total Restricted	<u>1,552,016</u>
Unrestricted	<u>2,337,387</u>
Total Net Assets	<u><u>\$ 12,993,969</u></u>

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

J. COMPONENT UNITS (cont.)

g. Employee Retirement System

The Housing Authority is staffed by City of Eau Claire employees and Housing Authority employees.

All eligible City and Housing Authority employees participate in the Wisconsin Retirement System (WRS), a cost-sharing, multiple-employer, defined benefit, public employee retirement system. All permanent employees expected to work at least 600 hours a year are eligible to participate in the WRS. Covered employees in the General category are required by statute to contribute 5.8% of their salary (2.8% for Executives and Elected Officials, 4.9% for Protective Occupations with Social Security, and 3.3% for Protective Occupations without Social Security) to the plan. Employers may make these contributions to the plan on behalf of employees. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

The payroll for Housing Authority employees covered by the WRS for the year ended December 31, 2005 was \$401,912; the employer's total payroll was \$403,684. The total required contribution for the year ended December 31, 2005 was \$40,995 or 10.2 percent of covered payroll. Of this amount, 100 percent was contributed for the current year. Total contributions for the years ending December 31, 2004 and 2003 were \$42,959 and \$38,258, respectively, equal to the required contributions for each year. The City of Eau Claire employees who work for the Housing Authority are covered under the City's plan.

Employees who retire at or after age 65 (62 for elected officials and 54 for protective occupation employees with less than 25 years of service, 53 for protective occupation employees with more than 25 years of service) are entitled to receive a retirement benefit. Employees may retire at age 55 (50 for protective occupation employees) and receive actuarially reduced benefits. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor. Final average earnings is the average of the employee's three highest years earnings. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefit. For employees beginning participation on or after January 1, 1990 and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998, are immediately vested.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

J. COMPONENT UNITS (cont.)

g. Employee Retirement System (cont.)

The WRS also provides death and disability benefits for employees. Eligibility and the amount of all benefits is determined under Chapter 40 of Wisconsin Statutes. The WRS issues an annual financial report which may be obtained by writing to the Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931.

h. Risk Management

The Housing Authority is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care of its employees. All of these risks, except for workers compensation, are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial coverage in any of the past three years. There were no significant reductions in coverage compared to the prior year.

Self-Insurance

The Housing Authority is insured for workers' compensation through the City of Eau Claire. The City of Eau Claire self-insures its workers' compensation exposure for the first \$300,000 of each occurrence. The City has purchased excess insurance from WMMIC for claims in excess of those amounts. Settled claims have not exceeded the commercial coverage in any of the past three years. Payments to the City's self-insurance program are based on historical cost estimates of amounts needed to pay prior and current year claims. See note IV.B. for further details.

i. Commitments

The Housing Authority has entered into a Regulatory Agreement with the Wisconsin Housing and Economic Development Authority (WHEDA) for the Park Tower Apartments Fund. The Regulatory Agreement contains, among other things, restrictions on the conveyance, transfer or encumbrance of any of the project property, assumption of additional indebtedness and assignment of rights to manage or receive the rents and profits of the property.

The Housing Authority provides housing for the Park Tower Apartments Fund pursuant to Section 8 of the United States Housing Act of 1974. Rentals are subsidized by the federal government through a housing assistance payments contract between WHEDA and the Housing Authority. Total assistance payments received from WHEDA were \$679,208 during 2005.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

J. COMPONENT UNITS (cont.)

i. Commitments (cont.)

The Housing Authority is the City of Eau Claire's component unit responsible for administering the federal program accounted for in the Low Rent Fund. This fund accounts for public housing projects which were financed primarily through U.S. Department of Housing and Urban Development (HUD) project notes. Federal legislation was passed which allowed the Secretary of HUD to forgive the outstanding indebtedness related to public housing projects.

There is no project debt outstanding at year-end.

The Housing Authority has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

j. Related Parties

The City of Eau Claire, Wisconsin provides various administrative services and facilities to the Housing Authority. No estimate of cost for these services is included in the financial statements. The City also pays for the Housing Authority's pension plan and other employee benefits for which the Housing Authority reimburses the City on a monthly basis. No liability has been provided in these financial statements for any unfunded actuarial liability that may exist.

k. Economic Dependency

The Housing Authority is economically dependent on annual contributions and grants from the U.S. Department of Housing and Urban Development (HUD). The Housing Authority operates at a loss prior to receiving contributions and grants from HUD.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

J. COMPONENT UNITS (cont.)

Redevelopment Authority

This report contains the Redevelopment Authority of the City of Eau Claire (RDA), which is included as a component unit. Financial information is combined with the City's other component units and presented as a separate column in the statement of net assets and statement of activities.

In addition to the basic financial statements and the preceding notes to financial statements which apply, the following additional disclosures are considered necessary for a fair presentation.

a. Basis of Accounting

The RDA prepares its financial statements in accordance with the accrual basis of accounting and the flow of economic resources measurement focus.

b. Deposits and Investments

The RDA maintains certain deposits at the same institutions as the City of Eau Claire. The custodial credit risk pertaining specifically to the RDA's resources at these institutions cannot be determined individually for those accounts. At year end, the RDA's deposits were \$1,400,951. The City's investment policy is applied to the custody of the RDA's deposits.

c. Advance from Primary Government

The City of Eau Claire, through TIF #8, allocated to the RDA \$1,310,000 in 2003 and \$370,000 in 2004 for a total contribution of \$1,680,000 for redevelopment acquisitions. The City did not charge any interest on the allocation. Since the RDA has applied the \$1,680,000 to the purchase of blighted properties, there is no expectation that the allocations will be repaid. The \$1,680,000 is included as a capital contribution on the 2005 statement of activities.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

J. COMPONENT UNITS (cont.)

d. Capital Assets

Capital asset held for resale activity for the year ended December 31, 2005 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 2,277,906	\$ 1,111,590	\$ -	\$ 3,389,496
Construction in progress	<u>810,919</u>	<u>60,996</u>	<u>802,252</u>	<u>69,663</u>
Total Capital Assets				
Not Being Depreciated	<u>\$ 3,088,825</u>	<u>\$ 1,172,586</u>	<u>\$ 802,252</u>	<u>\$ 3,459,159</u>

e. Net Assets

Net assets reported on the statement of net assets at December 31, 2005 includes the following:

Invested in capital assets, net of related debt	
Land	\$ 3,389,496
Construction in progress	69,663
Less: Related long-term debt outstanding (excluding unspent capital related debt proceeds)	<u>(-)</u>
Total Invested in Capital Assets, net of related debt	3,459,159
Unrestricted	<u>1,399,955</u>
Total Net Assets	<u>\$ 4,859,114</u>

f. Risk Management

The RDA participates in the same risk pools as the reporting entity. Information related specifically to the RDA is unavailable. See note IV.B. for further details.

g. Commitments

The RDA has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

J. COMPONENT UNITS (cont.)

h. Related Parties

The City of Eau Claire, Wisconsin provides various administrative services and facilities to the RDA. No estimate of cost for these services is included in the financial statements. The salaries and fringe benefits of the City's staff that work on RDA projects are paid for by the City. The RDA does not reimburse the City for any of these costs.

Business Improvement Districts

a. Basis of Accounting and Measurement Focus

The business improvement districts prepare their financial statements in accordance with the modified accrual basis of accounting. The measurement focus of the BIDs is the flow of current financial resources concept. Under this concept, sources and uses of financial resources, including capital outlays, debt proceeds and debt retirements are reflected in operations. Resources not available to finance expenditures and commitments of the current period are recognized as deferred revenue or a reservation of fund equity.

b. Deposits and Investments

The BIDs maintains certain deposits at the same institutions as the City of Eau Claire. The custodial credit risk pertaining specifically to the BID's resources at these institutions cannot be determined individually for those accounts. The City's investment policy is applied to the custody of the BID's deposits.

At year end, the deposit balances for the BID's were as follows:

Downtown	<u>\$ 16,714</u>
West Grand	<u>\$ 809</u>
Water Street	<u>\$ 33,080</u>

K. TAX INCREMENTAL FINANCING DISTRICTS

The City currently maintains separate debt service and capital projects funds which account for five Tax Incremental Financing Districts (TID) created in prior years in accordance with Section 66.1105 of the Wisconsin Statutes. The purpose of that section is to allow a municipality to recover development and improvements costs in a designated area from the property taxes generated on the increased value of the property after the creation date of the District. The tax on the increased value is called a tax increment. The statutes allow the municipality to collect tax increments until the net project cost has been fully recovered, or until 23 years after the creation date, whichever occurs first. Project costs uncollected at the dissolution date are absorbed by the City of Eau Claire.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE III – DETAILED NOTES ON ALL FUNDS (cont.)

K. TAX INCREMENTAL FINANCING DISTRICTS (cont.)

Debt service and capital project funds are maintained to account for tax increment and other revenues used to finance principal and interest payments on outstanding debt applicable to the districts. TID No. 4 was terminated during 2003. The City still maintains a debt service fund for TID No. 4. Surplus funds will be used to pay the remaining debt outstanding in TID No. 4.

	Effective Date	Amended Date	Expenditure Deadline	Termination Year
TID No. 4	1992	N/A	2002	03/25/2003
TID No. 5	1997	09/23/03	09/23/15	10/08/2020
TID No. 6	1997	N/A	01/28/15	01/28/2020
TID No. 7	1997	02/24/04	02/24/15	03/17/2020
TID No. 8	2003	N/A	09/24/20	09/24/2025

Upon termination, the incremental tax base created by each TID will become part of the City's regular tax base. Any surplus remaining in the TID fund at the time of termination will be allocated among all affected taxing jurisdictions.

The following table summarizes the project and expenditures from creation of the districts through December 31, 2005.

Project Costs	TIF #4	TIF #5	TIF #6	TIF #7	TIF #8
Capital expenditures	\$ 7,060,286	\$ 2,687,858	\$ 1,130,255	\$ 1,464,140	\$ 7,160,662
Interest and fiscal charges	2,755,760	1,030,234	422,089	688,867	658,713
Tax refund	142,198	-	-	-	-
Bond issuance costs	62,670	25,342	2,160	5,710	5,998
Total project costs	10,020,914	3,743,434	1,554,504	2,158,717	7,825,373
Project Revenues					
Tax increments	8,809,213	2,013,781	858,957	428,438	92,117
Interest income and misc. revenue	1,499,818	389,473	108,029	296,999	614,848
Special assessments revenue	-	-	181,120	-	-
Total revenue	10,309,031	2,403,254	1,148,106	725,437	706,965
Net recoverable costs (refundable)	\$ (288,117)	\$ 1,340,180	\$ 406,398	\$ 1,433,280	\$ 7,118,408

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE IV – OTHER INFORMATION

A. EMPLOYEES' RETIREMENT SYSTEM

All eligible City employees participate in the Wisconsin Retirement System (WRS), a cost-sharing, multiple-employer, defined benefit, public employee retirement system. All permanent employees expected to work at least 600 hours a year are eligible to participate in the WRS. Covered employees in the General category are required by statute to contribute 5.8% of their salary (2.8% for Executives and Elected Officials, 4.9% for Protective Occupations with Social Security, and 3.3% for Protective Occupations without Social Security) to the plan. Employers may make these contributions to the plan on behalf of employees. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

The payroll for City employees covered by the WRS for the year ended December 31, 2005 was \$29,827,621; the employer's total payroll was \$31,278,158. The total required contribution for the year ended December 31, 2005 was \$4,446,060 or 14.9 percent of covered payroll. Of this amount, 100 percent was contributed by the employer for the current year. Total contributions for the years ending December 31, 2004 and 2003 were \$4,354,298 and \$3,964,853, respectively, equal to the required contributions for each year.

Employees who retire at or after age 65 (62 for elected officials and 54 for protective occupation employees with less than 25 years of service, 53 for protective occupation employees with more than 25 years of service) are entitled to receive a retirement benefit. Employees may retire at age 55 (50 for protective occupation employees) and receive actuarially reduced benefits. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor. Final average earnings is the average of the employee's three highest years earnings. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefit. For employees beginning participation on or after January 1, 1990 and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998 are immediately vested.

The WRS also provides death and disability benefits for employees. Eligibility and the amount of all benefits is determined under Chapter 40 of Wisconsin Statutes. The WRS issues an annual financial report which may be obtained by writing to the Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931.

The pension related debt for the City as of December 31, 2005, was \$9,032,760. This liability was determined in accordance with provisions of GASB Statement 27 regarding pension-related debt. Depending on actuarial assumptions, this estimate can vary significantly.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE IV – OTHER INFORMATION

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

In addition to the above mentioned retirement system, the State of Wisconsin administers an agent multiple-employer plan which covers 27 retired employees of the City police and fire departments. These individuals were covered by a private pension plan prior to the City joining the system. No new employees are added to the plan. The City's policy is to fund retirement contributions to meet current benefit payments of these retired employees (i.e. "pay as you go"). Contributions are not actuarially determined. The total cost for 2005 was approximately \$129,625. Total estimated unfunded pension-related debt of this plan is approximately \$737,461 as of December 31, 2005, all of which relates to retirees and beneficiaries currently receiving benefits. Total cost for the year ended December 31, 2004 and 2003 was \$143,297 and \$152,510, respectively, equal to required contributions for each year. The rate of investment return is presently assumed to be 8%. The estimated remaining period of amortization is 11 years. This information is included in the above pension plan. The report can be obtained from the same address above.

The Wisconsin Retirement System also manages a duty disability plan under Section 40.65 of the Wisconsin Statutes. This plan pays lifetime disability benefits to police and fire employees who sustain on-the-job injuries that prevent them from continuing employment. The costs of this program are charged to the City as a percent of current police and fire wages. In 2005, 15 former employees participated in the program at a cost of \$727,816. The estimated present value of future costs for this program is \$3,568,953.

Under an earlier provision of the law, employers were directly responsible for the administration of duty disability payments. During 2005, three former employees were paid a total of \$27,980. The estimated present value of future costs of these benefits is \$261,073.

B. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; health care of its employees, and natural disaster. The City purchases commercial insurance to provide coverage for employee health, property damage, and boiler insurance. However, workers compensation risks are accounted for and financed by an internal service fund – the Risk Management fund.

Self Insurance

For workers' compensation claims, the uninsured risk of loss is \$300,000 per incident. The City has purchased excess insurance from WMMIC for claims in excess of those amounts. Settled claims have not exceeded the excess coverage in any of the past three years.

All funds of the City participate in the insurance program and make payments to the Risk Management fund. Amounts payable to the Risk Management fund are based on historical cost estimates of the amounts necessary to pay prior and current year claims.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE IV – OTHER INFORMATION (cont.)

B. RISK MANAGEMENT (cont.)

Self Insurance (cont.)

The unpaid claims liability of \$1,147,655 at December 31, 2005 is based on GASB Statement Number 10 which requires that a liability for claims be established if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimable. The liability is based on actuarial estimates of the present value of unpaid losses and includes both current claims payable and an amount for claims that have been incurred but not reported. The liability at year end of \$1,147,655 includes \$408,078 of potential workers compensation claims and \$739,577 for potential liability claims. Changes in unpaid claims liabilities in the current and prior year were:

Claims Liability

	<u>Prior Year</u>	<u>Current Year</u>
Unpaid claims – Beginning of Year	\$ 903,390	\$ 885,151
Current year claims and changes in estimates	788,462	1,370,820
Claim payments	<u>(806,701)</u>	<u>(1,108,316)</u>
Unpaid claims – End of Year	<u>\$ 885,151</u>	<u>\$ 1,147,655</u>

Public Entity Risk Pool

Transit Mutual Insurance Corporation of Wisconsin (TMICOW)

The Transit Mutual Insurance Corporation of Wisconsin was formed by 21 Wisconsin municipalities which have joined together for the managing and funding of the first party property losses and third party liability claims of its member municipalities mass transit funds.

In 2005, the TMICOW is protected by a \$2,000,000 self-insurance limit and a \$5,000,000 excess insurance policy issued by General Reinsurance Corporation effective January 1, 2005 through December 31, 2005. TMICOW provides \$7,000,000 in first dollar liability coverage.

Management consists of a board of directors comprised of one representative for each member. The City does not exercise any control over the activities of the agency beyond its representation on the board of directors.

Initial contributions are determined in advance of each membership year. The board of directors may require that supplemental contributions be made by members to ensure adequate funds are available to meet the obligations applicable to the membership year. Members have a contractual obligation to fund any deficit attributable to a membership year during which they were a member. The City's share of this operation is 3.5%. A list of the other members and their share of participation is available in the TMICOW report which is available from TMICOW, P.O. Box 1772, Appleton, WI 54912-1772.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE IV – OTHER INFORMATION (cont.)

B. RISK MANAGEMENT (cont.)

Public Entity Risk Pool (cont.)

Wisconsin Municipal Mutual Insurance Company (WMMIC)

The Wisconsin Municipal Mutual Insurance Company (WMMIC) is an intergovernmental cooperation commission created by contract under Section 66.30 of the Wisconsin Statutes, which has provided risk management and liability insurance services since January 1, 1988. Each member municipality appoints one policy holder to serve as a representative. The policy holders elect a seven member board of directors who are responsible for financing and budget control. The City does not exercise any control over the activities of the agencies beyond the election of officers and board. The City's initial capitalization of \$766,496 is recorded as an asset in the Risk Management internal service fund.

Insurance coverage provided through WMMIC includes auto and public liability for claims over \$100,000 per occurrence or \$300,000 aggregate for years 1988-94 and \$200,000 per occurrence or \$500,000 aggregate for years 1995-97, and \$200,000 per occurrence or \$400,000 aggregate in 1999 through 2005, with an annual cap of \$5 million. The policy is non-assessable, thereby limiting the City's commitment to a proportional share of a \$13,935,000 revenue bond issue sold by WMMIC to provide for the initial capitalization. The share of participation is determined on a basis of prior claim history and can be affected by acceptance of new members. The City's current share of participation is 4.10%.

C. COMMITMENTS AND CONTINGENCIES

Funding for the operating budget of the City comes from many sources, including property taxes, grants and aids from other units of government, user fees, fines and permits, and other miscellaneous revenues. The State of Wisconsin provides a variety of aid and grant programs which benefit the City. Those aid and grant programs are dependent on continued approval and funding by the Wisconsin governor and legislature, through their budget processes. The State of Wisconsin is currently experiencing budget problems, and is considering numerous alternatives including reducing aid to local governments. Any changes made by the State to funding or eligibility of local aid programs could have a significant impact on the future operating results of the City.

From time to time, the City is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the City Attorney that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the City's financial position or results of operations.

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE IV – OTHER INFORMATION (cont.)

C. COMMITMENTS AND CONTINGENCIES (cont.)

At December 31, 2005, the city was engaged in a dispute with the Transit union. The union alleges that the union members should be awarded over \$500,000 plus interest. The City asserts that the appropriate back pay is less than \$25,000. The remedy will be determined by the WERC.

At December 31, 2005, the City had contracts for construction projects on which work had not been completed or billed. These commitments are normal ongoing construction including maintenance of streets, storm sewers, and utility mains. They also include major equipment ordered but not delivered. No reservations of retained earnings have been made for the proprietary fund amounts.

<u>Capital Projects</u>	
TIF #7 Soo Line Development	\$ 7,173
TIF #8 Downtown Development	513,052
Street Projects	206,492
Bridge Projects	257,343
Buildings and Equipment	133,407
Parks and Recreation Projects	982,915
Environmental Improvements - Landfill	3,935
Library Buildings & Equipment	20,804
Total Committed Construction	<u>\$ 2,125,121</u>
<u>Proprietary Funds</u>	
Water Utility	\$ 98,162
Sewer Utility	92,389
Storm Water Utility	166,185
Parking Utility	3,190
Central Equipment	293,347
Total Committed Construction and Equipment	<u>\$ 653,273</u>

D. OTHER POSTEMPLOYMENT BENEFITS

In addition to providing pension benefits, the City provides certain contractually defined health care benefits for retired employees. Substantially all of the City's permanent employees may become eligible to receive an employer paid health care retirement benefit. Generally, the City will pay 100% of the lowest-priced single health policy between the age established by the Wisconsin Retirement System as normal retirement age and age sixty-five.

The cost of retiree health care benefits is recognized as an expenditure in the General fund as premiums are paid. During 2005, \$739,600 was paid on behalf of 100 retired employees.

As of December 31, 2005 the estimated present value of future costs to provide retiree health care benefits for current participants is \$4,867,562. This liability is adjusted annually based on estimated health care costs and actual levels of participation.

CITY OF EAU CLAIRE

NOTES TO FINANCIAL STATEMENTS December 31, 2005

NOTE IV – OTHER INFORMATION (cont.)

E. CONTINGENT LIABILITIES

The City had the usual and customary types of miscellaneous claims pending at year end. At the present time, there is no significant litigation pending.

The City owned and operated a landfill in the Town of Union which closed in 1978. Tests have detected volatile organic compounds in the vicinity. The City is currently working with other potentially responsible parties (PRP's) and the Wisconsin Department of Natural Resources to determine the extent of contamination and the appropriate remedial action. Ultimate cleanup cost estimates are not available; however, it is expected to exceed several million dollars. The City's share of these costs has not been determined but it is likely that it will share in these costs.

F. RELATED PARTIES

Gateway Industrial Park Corporation (Gateway), a Wisconsin non-stock, non-profit corporation was organized in 1984 for the purpose of acquiring, owning, and developing industrial and commercial property in Eau Claire County. The Board of Directors of Gateway is comprised of three members who serve indefinite terms and exercise equal control over the management of the company. The City, Xcel, and the Eau Claire Area Industrial Development Corporation each appoint one director.

In April, 1991, the City, Xcel, the Industrial Development Corporation, and Gateway signed an agreement to provide Gateway with loans up to \$960,000 (increased to \$3,000,000 in 1995) for the acquisition and development of industrial property. As of December 31, 2005, the outstanding loans under the agreement were \$1,100,000, of which \$550,000 was due the City. Total interest earned by the City was \$22,000 for the year ended December 31, 2005.

Downtown Eau Claire, Incorporated (DECI), a Wisconsin non-stock, non-profit corporation was organized in 2002 for the purpose of promoting the development of business, housing and cultural resources and activities with downtown Eau Claire. The Board of Directors of the corporation consists of eighteen individuals, of which ten are elected directors and eight are perpetual directors. Four of the elected directors represent downtown and the adjacent neighborhoods and six of the elected directors reflect the diverse balance of downtown's major employers, financial institutions, property owners, business, and non-business activities.

The eight perpetual directors consist of representatives or appointees of the following: Eau Claire City Manager, Eau Claire City Council President, Redevelopment Authority, Eau Claire County Board, Downtown Business Improvement District, West Grand Business Improvement District, Regional Arts Council and Eau Claire City Council. Downtown Eau Claire, Incorporated is funded by the City of Eau Claire and the Downtown Business Improvement District. The City of Eau Claire has contributed \$87,700 and the Downtown Business Improvement District contributed \$33,300 in 2005 for a budget of \$121,000.